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SUBJECT: CHAVEZ WELCOMES KIRCHNER TO VENEZUELA'S OIL BELT:
HOW TO BUY FRIENDS AND INFLUENCE

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11. BUENOS AIRES 311

11. (SBU) Summary: During a 24 hour trip to Venezuela's Faja oil belt, February 21-22, Presidents Kirchner and Chavez announced a new USD 1.5 billion joint "Bond of the South" offering, and the creation of the "Bank of the South" within 120 days. The two presidents also inaugurated Argentina's (largely symbolic) participation in a heavy oil project, and announced both a debt-relief plan to "save" an emblematic Argentine milk company and Venezuela's purchase of 15 tons of beef and chicken from Argentina. The two presidents signed a reported 17 agreements/MOUs in a variety of sectors -- ranging from agriculture to technology -- partnering Venezuelan cash and Argentine know-how, and further solidifying a strategic economic relationship which has seen bilateral trade grow from USD 100 million to USD 1 billion since 2003. While rejecting calls to contain Chavez, Kirchner took jabs at the IMF and World Bank, proclaimed that Latin American integration should not upset anyone, and declared "paternalism" dead. End Summary.

Petroleum

12. (SBU) Kirchner arrived in Puerto Ordaz, the gateway to the oil producing Faja district in western Venezuela, the afternoon of February 21 for a 24 hour official visit. Kirchner was received by Vice President Jorge Rodriguez and Minister for Energy and Petroleum Rafael Ramirez. Bilateral trade between the two countries has grown dramatically since 2003, reportedly growing from USD 100 million in 2003 to USD 1 billion in 2007.

13. (SBU) On February 22, Chavez and Kirchner traveled deep into the Faja, Venezuela's heavy oil belt, to sign a MOU inaugurating the largely symbolic participation of Argentina's state-owned petroleum company Enarsa in the quantification of petroleum reserves in the Magna Reserve project. Enarsa brings little to the table as its only assets consist of survey/concession rights in unawarded offshore oil fields (Reftel B). PDVSA has divided the Magna Reserve project into 27 units, or "blocks," which it has parceled out to Spanish, Vietnamese, Iranian, Malaysian, Indian, Byelorussian, and now Argentine, national petroleum companies. Enarsa will operate in Block Number 6 with

Uruguay's national petroleum company, ANCAP.

Bonos del Sur

¶4. (SBU) Chavez and Kirchner announced a second issuance of dollar-denominated Argentine-Venezuelan "Bonos del Sur" bonds in Venezuela, a re-packaged mix of Argentine and Venezuelan debt, in the principal amount of USD 1.5 billion. Chavez announced the bonds would be offered in Venezuela on February 126. As well as offering a quick source of cash for its Argentine ally, the BRV expects that the bonds will absorb excess bolivars to drive down the price of the parallel exchange rate dollar and curb inflation. Venezuelan investors will welcome the chance to buy the dollar-denominated assets with bolivars as a hedge against inflation and to diversify out of the increasingly volatile local currency. The two governments initially issued USD 1 billion of Bonos del Sur in November 2006 which were massively oversubscribed by eager Venezuelan investors (Reftel A). Argentina's economy minister, Felisa Miceli, said the Argentine mix would consist of USD 750 million worth of 2015 Boden bonds recently purchased by Venezuela while her Venezuelan counterpart, Rodrigo Cabezas, did not specify the composition of Venezuela's debt that would be packaged.

The Bank of the South

5 (SBU) Chavez and Kirchner signed an MOU to establish a "Banco del Sur," an autonomous Latin American credit lending institution, within 120 days. Chavez referred to the creation of the "Banco del Sur" as "historic," and added that out of the 17 accords reached during Kirchner's 24 hour visit

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to Venezuela, the Banco del Sur was the most important. Chavez added that the bank would be headquartered in Caracas, with another office in Buenos Aires. He expected that Bolivia and Ecuador would be the first nations to join Argentina and Venezuela, and possibly Brazil. Chavez opined that the first project the bank might finance could be the Bolivia-Argentina leg of the "Gas Pipeline of the South."

¶6. (SBU) Both Chavez and Kirchner encouraged other countries of the region to participate in the Banco del Sur project to reduce reliance on the World Bank and IMF. "We have depended for a long time on the architecture of international finance. The hegemony that dominates the world created these institutions such as the IMF and World Bank. With this (Banco del Sur), we are freeing ourselves," proclaimed Chavez. Kirchner, normally more reserved than his Venezuelan counterpart, chimed, "In Argentina, there are still themes we are trying to support...we are still trying to get out of hell, trying to get out of the World Bank..." An angry Kirchner concluded "These banks (World Bank and IMF) have totally lost their purpose and we hope at some time they recover it."

Protecting SanCor from Soros

¶7. (SBU) Chavez announced a 135 million investment in SanCor, an Argentine milk cooperative. One of Argentina's principal milk producers, SanCor's debt reportedly reached USD 167 million at the end of 2006 and was reportedly approached by an entity controlled by George Soros to sell 62 percent controlling interest in the company. The BRV will maintain an equity stake in the company and SanCor will install factories in Venezuela. Sancor will supply Venezuela with 15 million tons of powdered milk over 12 years.

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Accords from Argentine Beef to Natural Gas Buses

¶18. (U) Argentina has agreed to sell PDVSA buses powered by natural gas engines. Venezuela's Energy Minister Ramirez has announced a plan to migrate motor vehicles to natural gas, starting with public transportation. The petroleum saved by using gas-powered buses will be exported. The first 40 buses are expected to arrive in Venezuela in 2007 and, in the future, will be produced domestically in Venezuela.

¶19. (U) Argentina and Venezuela also signed an agreement to mitigate Venezuela's food shortages. Argentina will supply Venezuela with 10 thousand tons of beef and 5 thousand tons of chicken. Argentina's National Agricultural Technology Institute announced plans to construct two research laboratories in Venezuela, and Argentine engineers will help construct low-income housing in Venezuela. Kirchner stressed that Argentine technical know-how would partner with PDVSA cash in Venezuela, "Argentine investors are going to come and invest technology to associate with PDVSA's agricultural development."

Kirchner: No to Paternalism

¶10. (SBU) During their joint statements in the Faja, Chavez hailed Kirchner's visit as an example of South American "solidarity." He continued that the agreements reached between Venezuela and Argentina were part of a grand South American national project. "Not Venezuelan, not Argentine, not Brazilian, Bolivian, or Uruguayan. South American, national! We are creating a solid, cohesive area," affirmed Chavez.

¶11. (SBU) Kirchner echoed Chavez' remarks and criticized "paternalism." Kirchner noted that "no one should be bothered by the integration of our peoples, and we need to finish with these paternalistic theories from the institutional and political point of view. Much has been said in recent times that there have to be countries to contain other countries or in the case of President Lula, or in my case, we need to contain Chavez, an absolute mistake, we are building with our brother, President Chavez, a South

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American area to build dignity for our peoples."

Chavez Takes a Shot at Arias

¶12. (SBU) Chavez also took a shot at Costa Rican President Oscar Arias, after the Costa Rican president suggested Venezuela's plans to close an aluminum plant in Costa Rica were politically motivated. Chavez said that Arias could not expect good bilateral relations if he referred to Venezuela as a dictatorship and that the Costa Rican President should not involve himself in things that don't concern him. "Some talk so that they get applauded in Washington," said Chavez.

Comment

¶13. (SBU) The second issuance of joint Venezuelan-Argentine "Bonos del Sur" worth USD 1.5 billion, provides Argentina access to capital markets for its debt, and enables the BRV to soak up excess liquidity, fight inflation and reduce pressure on the bolivar. It also offers Venezuelan investors a hedge against inflation. Chavez' vision of institutionalizing the BRV's underwriting of regional debt by creating the "Banco del Sur" within three months seems far-fetched. While Chavez may open a token office and claim to holding negotiations with regional leaders, Venezuelan

financing will likely continue on an ad-hoc basis.

¶14. (SBU) Most of the accords signed during Kirchner's lightning visit to Venezuela are symbolic. Kirchner's visit to Venezuela may have been timed to balance President Bush's upcoming travel to Latin America. Kirchner's parroting of Chavez' rhetoric, just two weeks after welcoming Under Secretary Burns and Assistant Secretary Shannon to Argentina,

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shows that Chavez can still buy friends and influence with the right price. End Comment.

Addendum: List of Agreements

¶15. (U) The following is a list of the 17 agreements signed during Kirchner's visit to Venezuela:

-- Cooperation Agreement on Science and Technology between BRV Ministry of Agriculture and Argentina's Ministry of Economy and Production

-- Letter of Intent to establish scientific cooperation to strengthen meat distribution in Venezuela

-- MOU in field of health and medicine between BRV Ministry of Health and Argentine Ministry of Health

-- MOU on communication between BRV Ministry of Communications and Argentine Cabinet of Ministers

-- MOU on cooperation in diplomatic training between respective Ministries of Foreign Affairs

-- MOU in habitat and housing between BRV Ministry of Housing and Argentine Ministry of Planning

-- MOU on electrical equipment between BRV Ministry of Energy and Petroleum and Argentine Ministry of Planning

-- MOU on acquisition of gas-powered buses between BRV Ministry of Energy and Petroleum and Argentine Ministry of Planning

-- MOU on cooperation in natural gas between BRV Ministry of Energy and Petroleum and Argentine Ministry of Planning

-- MOU on natural gas between PDVSA and Argentine Association of Natural Gas

-- MOU on equipment related to natural gas between PDVSA and Argentine TATSA

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-- MOU on natural gas-powered buses between PDVSA and Tomasetto Achile

-- Fuel Oil Supply Contract between PDVSA and Enara

-- MOU on electrical equipment between CADAFE and FARADY, SA

-- Financing Agreement between BANDES and SANCOR

-- Industrial Cooperation Agreement between BRV and Argentina

-- MOU for construction of Banco del Sur (Bank of the South)

BROWNFIELD